

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

In the matter of:)	
)	
WACHOVIA SECURITIES,)	Case Number. 08-00202
LLC; and)	
)	
WACHOVIA CAPITAL)	
MARKETS, LLC,)	
)	
Respondents.)	
)	

NOTICE OF HEARING

TO THE RESPONDENTS: WACHOVIA SECURITIES, LLC
One North Jefferson Avenue
St. Louis, Missouri 63103.

WACHOVIA CAPITAL MARKETS, LLC
301 S. College Street
TW-8, Mail Code NC0602
Charlotte, North Carolina 28288-0601

You are hereby notified that, pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K (the "Rules"), a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 9th day of June, 2010, at the hour of 10:00 a.m., or as soon thereafter as counsel may be heard, before James L. Kopecky, or another duly designated Hearing Officer of the Secretary of State.

This hearing will be held to determine whether an Order shall be entered against the Respondent in the State of Illinois and/or grant such other relief as may be authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount

pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

FINDINGS OF FACT

1. Wachovia Securities, LLC¹ ("Wachovia Securities") is a broker-dealer registered in the state of Illinois with its home office at One North Jefferson Avenue, St. Louis, Missouri 63103; and
2. Wachovia Capital Markets, LLC ("Wachovia Capital Markets," collectively with Wachovia Securities, "Wachovia"²), is a broker-dealer with its home office at 301 South College Street, Charlotte, North Carolina 28288; and
3. A multi-state task force conducted and coordinated investigations into Wachovia's marketing and sale of auction rate securities to investors during the period of January 1, 2006, through February 14, 2008; and
4. After a books and records inspection by a multi-state task force on July 17, 2008, Wachovia Securities has cooperated fully with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to information relating to the investigations; and
5. Wachovia has advised regulators of its agreement to resolve the investigations relating to its marketing and sale of auction rate securities to investors; and

¹ In October 2007, Wachovia Corporation acquired the Missouri-based broker dealer A. G. Edwards & Sons, Inc. ("AG Edwards") which was subsequently combined with Wachovia Securities, LLC.

² Factual allegations in this Order may apply to Wachovia Securities and/or Wachovia Capital Markets, but do not necessarily refer to both entities.

6. Wachovia agrees to, among other things, reimburse certain purchasers of auction rate securities, and to make certain payments at the direction of the Illinois Securities Department ("the Department"); and
7. Wachovia elects to permanently waive any right to a hearing and appeal under the Illinois Securities Law of 1953 and/or Illinois law with respect to this Consent Order (the "Order");
8. Wachovia Securities admits to the jurisdiction of the Department and Wachovia Capital Markets consents to the jurisdiction of the Department for purposes of this Order. Neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and each consents to the entry of this Order by the Department.
9. Auction rate securities are long-term debt or equity instruments that include auction preferred shares of closed-end funds, municipal auction rate bonds, and various asset-backed auction rate bonds (collectively referred to herein as "ARS"). While ARS are all long-term instruments, one significant feature of ARS (which historically provided the potential for short-term liquidity) is the interest/dividend reset through auctions that occur in varying increments of between 7 and 42 days. If an auction is successful, investors are able to exit the ARS market on a short-term basis. If, however, an auction "fails," investors are required to hold all or some of their ARS until the next successful auction in order to liquidate their funds. Beginning in February 2008, the ARS market experienced widespread failed auctions.
10. In early April of 2008, Wachovia Securities' investors, unable to access their ARS

funds, began to submit complaints the Department.

Marketing and Sales of ARS to Investors

11. In connection with the sale of ARS, some Illinois investors stated variously that they were told by Wachovia Securities and its registered agents that ARS were:

- a. just like cash;
- b. same as cash;
- c. safe as cash;
- d. same as money markets;
- e. safe as money markets;
- f. cash equivalents;
- g. short-term adjustable rate securities;
- h. cash alternatives;
- i. completely safe;
- j. liquid at any time; and/or
- k. always liquid at an auction.

12. Although marketed and sold to investors as safe, liquid, cash-like investments, and although the ARS market had, in fact, functioned for more than twenty years with virtually no auction failures, ARS are actually long-term instruments subject to a complex auction process that, upon failure, can lead to illiquidity and lower interest rates.

13. Wachovia Securities further fostered the misconception that ARS were cash-like instruments by providing account portfolio summaries to certain of its customers that listed ARS as "cash equivalents." In fact, ARS were not "cash equivalents" and full liquidity was only

available at an auction if the auction was successful.

14. Although Wachovia Securities sold ARS as conservative, safe, and liquid investments to its investors until February 2008, Wachovia had information that several auctions had failed in August 2007 and early 2008, before the mass failures in February 2008. During this same period of time, Wachovia failed to inform its customers purchasing ARS after such auctions began to fail that certain auctions would have failed had Wachovia or another broker-dealer not entered support bids in those auctions.

15. Although Wachovia knew, or should have known, of the inherent risks and the recent volatility of the ARS market, only minimal information regarding the ARS market was provided to Wachovia Securities' retail ARS customers.

16. Wachovia and its registered securities agents were, or should have been, aware that the ARS market was suffering from increasing failures and liquidity issues, and they should have disclosed those facts to investors who were purchasing auction rates after such issues arose. Based on these facts, Wachovia engaged in dishonest and unethical practices in the marketing and sale of ARS. Pursuant to the Illinois Securities Act of 1953, these practices constitute grounds to revoke Wachovia's registration. These practices included, among other things, the following:

a. Wachovia told some ARS investors purchasing ARS after the market disruptions began to occur that:

- i. ARS were cash equivalents;
- ii. ARS were completely safe; and/or
- iii. ARS were liquid at any time.

b. Wachovia was or should have been aware that the market for ARS was becoming illiquid, yet Wachovia Securities continued to market and sell ARS to investors.

Temporary Maximum Rate Waiver on Certain ARS

17. The interest rates on ARS are reset periodically through the auction process. In the event that there is insufficient demand for a particular issue and an auction fails, the interest rate resets to a "maximum rate" or "failure rate" as defined in the offering documents for that particular issue. Typically, this maximum rate would be higher than prevailing market rates in order to compensate ARS holders who are unable to sell their positions and offer an "incentive" to induce buyers to return to the market although in some cases, particularly for student loan auction rates, the maximum rate might be lower than the prevailing rate.

18. Wachovia Securities engaged in dishonest and unethical practices by not adequately explaining to individual investors who purchased ARS with maximum rate waivers, among other things, the following:

- a. that the ARS interest rates could not be reset at a level that would prevent a failed auction absent the maximum rate waiver; and
- b. that the high interest rate allowed by the waiver would expire at the end of the waiver period unless extended by the issuer.

19. Pursuant to the Illinois Securities Act of 1953 these practices constitute grounds to revoke Wachovia Securities' registration.

Failure To Supervise Agents Who Sold ARS

20. Although ARS are complicated and complex products, Wachovia Securities did not provide its sales or marketing staff with the training and information necessary to adequately explain these products or the mechanics of the auction process to their customers. During the course of investigations, on-the-record statements taken from Wachovia Securities' registered agents demonstrated that these agents lacked a basic understanding of the functionality of the ARS products and the auction rate market.

21. Many of Wachovia Securities' registered agents were not adequately educated in the ARS products they were selling and did not know where to look for information to bolster that knowledge. Wachovia Securities failed to provide timely and comprehensive sales and marketing literature regarding ARS and the mechanics of the auction process. In addition, Wachovia Securities failed to review account portfolio statements sent to its customers to ensure that they reflected accurate information regarding ARS.

22. Wachovia Securities' failure to provide sufficient training and information concerning ARS and the market environment in which they were sold was not limited to one or two agents, and is therefore indicative of Wachovia Securities' failure to ensure that its registered personnel provided adequate information regarding ARS to its customers.

23. Wachovia Securities failed to reasonably supervise its employees, which is grounds for revocation of its registration pursuant to 8E.(1)(e)(iv) (failure to supervise) of the Illinois Securities Law of 1953 by:

a. failing to provide adequate training to its registered agents regarding ARS by, among other things:

- i. failing to provide timely and comprehensive sales and marketing literature regarding ARS and the mechanics of the auction process;
 - ii. failing to provide pertinent information concerning the complexity of the ARS product; and
 - iii. failing to ensure that its agents were selling ARS to individual investors for whom they were suitable; and
- b. failing to review account portfolio statements sent to its customers to ensure that they reflected accurate information regarding ARS;
- c. failing to review ARS transactions in accounts of customers who needed liquidity; and
- d. failing to ensure that its registered personnel were providing adequate information regarding ARS to its customers.

ALLEGATIONS OF LAW

1. Illinois has jurisdiction over this matter pursuant to the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act").
2. Wachovia employed unethical practices in the offer and sale of auction rate securities, subjecting Wachovia to sanctions under 8.E(1)(b) of the Act.
3. Wachovia failed to reasonably supervise its agents or employees, in violation of Section 8.E(1)(e)(iv) of the Act.
4. This Order is necessary and appropriate in the public interest and for the protection of investors, and is consistent with the purposes fairly intended by the policy and the provisions of the Act.

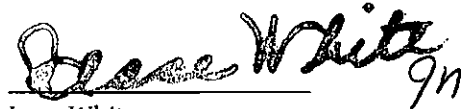
You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer, special appearance, or other responsive pleadings to the allegations above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to appear shall constitute a default by you.

A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at <http://www.ilga.gov/commission/jcar/admincode/014/01400130sections.html>, or upon request.

Delivery of Notice to the designated representative of the Respondent constitutes service upon such Respondent.

Dated: This 29th day of March 2010.

A handwritten signature in black ink that reads "Jesse White" with a stylized flourish at the end.

Jesse White
Secretary of State
State of Illinois

Attorney for the Secretary of State:
Angela P. Angelakos
Office of the Secretary of State
Illinois Securities Department
69 West Washington, Suite 1220
Chicago, Illinois 60602
312.793.3595 Phone
312.793.1202 Fax

Hearing Officer:
James L. Kopecky
190 S. LaSalle Street, Suite 850-A
Chicago, IL 60603